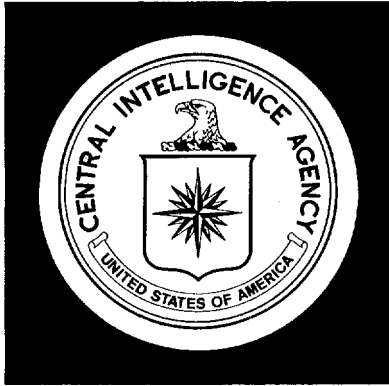


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ARAB STATES - ISRAEL: The Middle East News Agency (MENA) reported from Cairo yesterday that the Egyptian Army has undergone a shakeup that has removed chief of staff Shazli, the apparent mastermind behind plans for the attack on 6 October. The new chief of staff is General Gamasy, Egypt's chief negotiator at the now-stalled disengagement talks at Kilometer 101.

There have been indications that Shazli has been at odds with Egypt's political leadership and with War Minister Ismail over Egyptian strategy during the war. Shazli has recently been the target of increasing criticism for his failure to retain the military initiative for Egypt after the successful crossing of the Suez Canal. He apparently was given a dressing down by President Sadat last week. Gamasy, on the other hand, has won high marks for his performance at the disengagement talks.

Among other new appointees are General Hassan Juraydili as chief of operations, General Fuad Aziz Ghali as commander of the Second Army, and General Said Ahmad as commander of the Third Army. These changes appear to be an effort to remove those primarily responsible for the failure of Egyptian forces to halt the Israeli penetration of the west bank of the canal. Both of the new commanders were regimental commanders who led the successful Egyptian crossing of the Suez on 6 October.

The MENA dispatch notes that the replacements are designed to reinforce the army command and "to prepare for the coming stage with commands which are scientifically and practically qualified for the kind of war which these commands have witnessed recently and which the Egyptian armed forces might witness at any time."

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Numerous cease-fire violations were reported on both the Syrian and the Egyptian fronts yesterday. Radio Damascus claimed that at least 20 Israeli

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Casualties had resulted from "fierce fighting" that included the use of artillery and tanks. Tel Aviv acknowledged that Syrian forces had shelled Israeli positions, but denied that it suffered any casualties.

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UK: Prime Minister Heath has asked for an extension of the month-old state of emergency in order to deal with the worsening energy situation and the spreading labor strife that are threatening Britain with an economic crisis.

The executive committee of the coal miners' union will meet today to decide whether it will submit to a vote of the union's membership its dispute with the government over wage increases. If the issue is put to a vote, the miners will decide whether to accept the government's offer or call for a strike. Otherwise, the ban on overtime, which has cut coal production by 30-40 percent, will continue.

The decision yesterday by one of the major railroad unions to ban overtime and Sunday work until it receives a better wage offer will further weaken Britain's energy situation. The limited amounts of coal that are being produced will be more difficult to transport because of the railroad slowdown. Industry's energy reserves, already diminished by the oil shortage, have been further depleted by the government's orders to divert oil to power stations, where electrical engineers are also engaged in a work slowdown.

The government has exhausted the simple steps it can take to conserve energy, and tougher measures will be needed if labor slowdowns continue. Under consideration are such measures as a shorter work-week and a 25-percent cut in heating oil for homes, factories, and offices. A 17-percent reduction in aviation fuel deliveries has already been put into effect.

Future economic forecasts are also gloomy. One leading industrialist believes that the crisis could triple unemployment in the next two months. Inflationary pressures next year are expected to be the most severe since 1945. The government will release the November trade figures today and the expectation is that they will reflect a record deficit. [REDACTED]

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EUROPEAN COMMUNITIES: Leaders of the Nine are still divided over the oil question. Their summit meeting in Copenhagen on 14 and 15 December will largely be judged on the degree of progress they make toward resolution of this question. A lack of solidarity on this issue would tend to undercut the declaration on a "European identity" that the summit is expected to approve. It would also make more difficult the search for compromises on important community issues--such as regional and industrial policies--that should be decided by the end of the year.

The EC Commission, conscious of the growing uneasiness over the oil crisis, will press for summit endorsement of a number of measures that would be a start toward the EC's long-delayed common energy policy. These measures would empower the Commission to collect information on oil movements within the EC and to approve controls over them. The Commission also wants an EC oil-sharing arrangement, coordinated conservation measures, and harmonization of oil price controls.

The Dutch, Germans, and Danes will probably support these and other measures as a demonstration of EC solidarity. The French, however, have opposed oil-sharing and share British fears of offending the Arabs by any open and formal EC oil measures. Instead, Paris may seek summit endorsement of restrictions on the power of the international oil companies and of French plans for development of a European uranium-enrichment capability.

The British also prefer to focus on long-term measures, on ways to avoid more severe production cuts, and on measures to assure EC access to Arab oil in the future. The British and others may urge the summit to support the idea of European-Arab meetings to discuss producer-consumer cooperation. The French have again recently called on the EC to organize such cooperation even though Paris, as well as other members, is bargaining individually with

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Arab oil producers. Six Arab foreign ministers are slated to be in Copenhagen during the summit, presumably to "monitor" European attitudes toward the Middle East. A Danish official, however, doubts that the EC foreign ministers--who will also be in Copenhagen--will meet with the Arabs as a group.

In addition to the urgent oil problem, European defense cooperation is likely to receive attention during the private talks. Given the political complexity of the subject, the discussion probably will not go beyond a preliminary exchange of views, but even this would be the first discussion of defense by all nine leaders meeting together. France's recent initiatives on accelerating European defense cooperation have been in vague terms, but the generally positive reactions from Bonn may add seriousness to the exchange in Copenhagen.

No matter how limited the progress the summit may make on economic integration issues, the Nine are likely to announce their intention to step up political consultations. Despite continued reservations among some of the Nine about the potentially damaging effect of summitry on EC institutions, the leaders will probably endorse more frequent sessions at the top as well as more effective "crisis procedures" among the Nine.

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VENEZUELA: Carlos Andres Perez' landslide victory in the presidential election is not likely to result in a major shift in domestic or foreign policies. He is expected to continue his predecessor's firm nationalistic stance on economic matters, particularly the complex petroleum problem.

Perez will press to advance the date of the takeover of US and other foreign petroleum concessions, now scheduled to begin in 1983, but he will also try to attract new private investment to join with state enterprises in developing the country's vast unexploited energy resources.

Perez' basic pragmatism and lack of ideological restraints indicate that he will be a hard but practical bargainer in dealing with the US and the oil companies on energy. More specific indications of his policy toward the US will be in his choice of persons to handle oil matters and in his willingness to move forward on a long-term agreement to provide the US with a guaranteed supply of petroleum in return for access to US markets for Venezuela's non-oil exports.

In his first press conference as president-elect, Perez stated that his administration would not be influenced by US or other foreign oil companies. While offering friendship to Washington, he made it clear that he would use petroleum resources as a lever to get better treatment for his country. Although Perez is believed to support conservation measures in oil production, he has not called for a cutback.

Perez' victory over the governing Social Christian Party apparently has also carried his Democratic Action Party to majority control of the legislature, an unprecedented event in Venezuela. The strong vote of confidence for the moderately nationalistic policies of both major parties--they received about 85 percent of the presidential votes cast--points to the possible emergence of a two-party system and increasing political stability for the country. [REDACTED]

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Yugoslav-Soviet Relations

Yugoslav relations with the Soviet Union are better than at any time since the Arab-Israeli war in 1967. The slow forward movement began in 1971, gained new impetus during the recent Middle East war, and was further demonstrated during the Tito-Brezhnev talks in Kiev in mid-November.

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The Road to Kiev

At the beginning of the 1970s, Belgrade's foreign policy was still deeply influenced by what happened to Prague in 1968 and by attendant fears of a Soviet invasion of Yugoslavia. Relations with Moscow and its loyal East European allies had gone sour and Belgrade's fervor for nonalignment had waned. In the Communist movement, the Yugoslavs were cultivating ties with mavericks like China and Romania, who were prominent in their defiance of the CPSU. On the other hand, relations with Western Europe and the US had prospered, both in reaction to the Soviet threat and in the hope that ties to the West would bring economic improvements at home.

By 1971, however, Tito perceived that there could be serious drawbacks in leaning too far to the West.

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--Premature attempts to decentralize and liberalize the party and government precipitated a crisis of nationalism in Croatia.

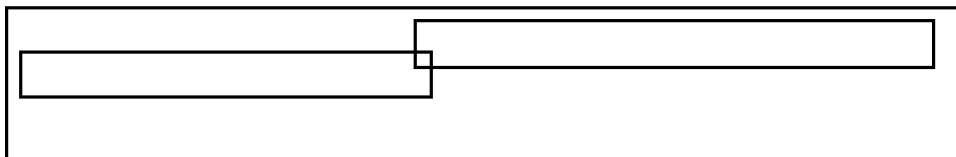
--Economic ties to the West created large debts to Western creditors without ensuring adequate development of the Yugoslav industrial base.

Moreover, the strategic advantages of the Westward tilt began to erode as the mood of European politics shifted toward detente. As Brezhnev increasingly touted his friendly ties with the rest of Europe and the United States, Tito saw less reason to maintain his anti-Soviet line. More important, perhaps, the new atmosphere gave Tito an opportunity to repair an old breach with the Kremlin in time to win Moscow's good graces for his successors. His meeting with Brezhnev in Belgrade in September 1971 set in train a series of political contacts and expanding economic ties that were to become the core of the new relationship.

At the same time, US-Yugoslav relations visibly worsened as Tito tightened internal discipline, and as he attempted to revive the moribund nonaligned movement with himself at its head.

When the Middle East war started, Tito immediately proclaimed full support for the Arabs--his principal partners in nonalignment--thus placing Yugoslavia on the same side with the USSR in an international crisis. Belgrade granted over-flight rights for the Soviet airlift, and began to produce vehement anti-Israeli propaganda.

Throughout the war Tito promised "all-round" support to his Arab allies, and there is good evidence that this involved shipments of military goods that included:



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--mortars and ammunition, and

--trucks, mobile artillery, and tanks.

Tito's generosity was designed not to curry favor with the Soviets, but to shore up his waning authority in the nonaligned movement, the leadership of which had been largely seized by the Arabs at the nonaligned summit a month earlier. The Soviets, however, were delighted with Tito's actions and invited him to meet with Brezhnev in Kiev.

What Tito Got at Kiev

At the end of the visit, Tito signed a warmly worded communiqué describing his talks with Brezhnev in terms of "trust and confidence." He also dropped standard Yugoslav demands for wording on national sovereignty and noninterference in internal affairs. This basic change in atmospherics undoubtedly had strong underpinnings in the form of agreements on important political and economic issues. The communiqué prominently referred to improved prospects for political cooperation. A later commentary in Pravda stressed the similarity of "socio-economic structures as a stable basis for long-term comprehensive cooperation." Top Soviet and Yugoslav officials, however, have been discreetly noncommittal about what transpired.

[redacted] Moscow reiterated the pledge contained in the 1956 Belgrade declaration that the Soviets would conduct relations on the basis of complete equality. Combining this renewed pledge with Tito's statements of "trust and confidence" in the Soviet leadership may portend increased party contacts in bilateral and multi-party forums.

From Belgrade's point of view, the prospects of long-term economic cooperation are probably more important. Moscow had extended Belgrade a \$540-million credit in 1972, and two months ago promised to build

a gas pipeline to northern Yugoslavia. The Kiev discussions indicate a continuing willingness on the part of the Kremlin to make solid investments in Yugoslavia.

A New Arms Deal?

Tito probably has requested the resupply and modernization of the Yugoslav armed forces with Soviet weapons. The arms Tito sent the Arabs--although largely obsolete--must have cut deeply into the Yugoslav arsenal. Moscow is Yugoslavia's prime supplier of sophisticated weapons, and Tito may have tried to capitalize on Belgrade's military aid to the Arabs in order to present a shopping list to Brezhnev.

Subsequent to the Kiev meeting, Vice President Ribicic admitted on television that Yugoslavia sent arms to the Arabs and stated that Belgrade would modernize its armed forces and buy some equipment abroad. He also said the country would export more of its small arms production to the Third World--read Arabs--to defray costs of major new purchases.

If the Soviets do agree to replace Belgrade's arms losses with modern weapons, the gesture could allay any residual fears Tito may have about a Soviet invasion. For his own part, Tito may well have decided to seek arms in the most accessible market open to him, that is, a barter exchange market.

The Effects of Kiev

Improved ties with Moscow necessitate several Yugoslav concessions. Belgrade already plans to back away from its traditional support of China in deference to Kremlin sensitivities. In addition, Belgrade may now begin to mute differences with Moscow on international issues, like MBFR, in which Yugoslavia has an interest but no real influence. This changed attitude toward the Soviet Union probably will be detrimental to Yugoslavia's traditional role in the world Communist movement and in the international community.

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One effect could be a further downturn in relations with Romania. President Ceausescu, who has long regarded Tito as both a friend and a fellow maverick in the Communist movement, is already angry. During the Middle East war, the Yugoslavs and Romanians competed for a prominent role in finding a settlement. At the UN, the Yugoslavs were vociferous in helping to frustrate Romania's offer of troops to the UNEF. The Yugoslav shift on the Sino-Soviet dispute will add to Ceausescu's anger.

In the long run, if differences between Belgrade and Bucharest multiply and affect the shared basic principles that have shaped their relations with Moscow, it could prove most damaging, for Ceausescu would become increasingly isolated. His independent stance in Eastern Europe thus would become more vulnerable.

Belgrade can also expect to hear from other Communist parties that have been active in opposing Moscow's attempts to dominate the movement. Certainly Peking will register its displeasure, as will the Albanians and the Italian Communists.

Belgrade's generally good relations with Western Europe have not yet been affected, though some deterioration is possible. Tito will, however, be careful not to rock the boat, both because he wants Yugoslavia to play a full role in European detente and because of his country's overwhelming economic dependence on Western trade and credits.

Relations with Washington, which have already slipped from the highpoint achieved in 1970-1971, are evidently in for more rough sledding. Disagreements over the Middle East have contributed to this decline, but these alone do not justify the frequently vitriolic anti-US propaganda in the Yugoslav media. Such propaganda instead appears to reflect Tito's desire to distract attention from internal problems and to win influence over the more radical countries in the nonaligned movement which dominated the Algiers summit in September. In order to achieve this goal,

Tito is paying lively lip service to the "imperialist conspiracy" line that is common to Third World radicals. In Kiev, Brezhnev also played on this theme by linking the Allende coup and the Middle East war as parts of the plot.

Independence versus Collaboration

If there is any single factor that has motivated Tito's swing toward Moscow, it is his constant search for those policies that will ensure Yugoslavia's independence after he is gone. This was true of his earlier orientation toward the West and of his strivings to make nonalignment a viable world force. In essence, he currently sees more to gain from Moscow than from the West.

There are limits to his cooperation with the Soviets, however. He will not, for example, permit any kind of formal ties that would even appear to undermine his independence. He will also avoid restrictive relationships with CEMA that would preclude Belgrade's continued relationship with the Common Market.

At least for the foreseeable future, Tito will work more closely with Moscow, but within the framework of detente, and only so long as he believes the Kremlin's avowals that it is dedicated to the peaceful settlement of major European problems. Should Moscow undertake any action that seems to threaten detente, the Yugoslavs would immediately backpedal toward the West. Similarly, if Moscow becomes overly confident of its influence and begins to meddle in Yugoslav internal affairs, Tito will be quick to react negatively.

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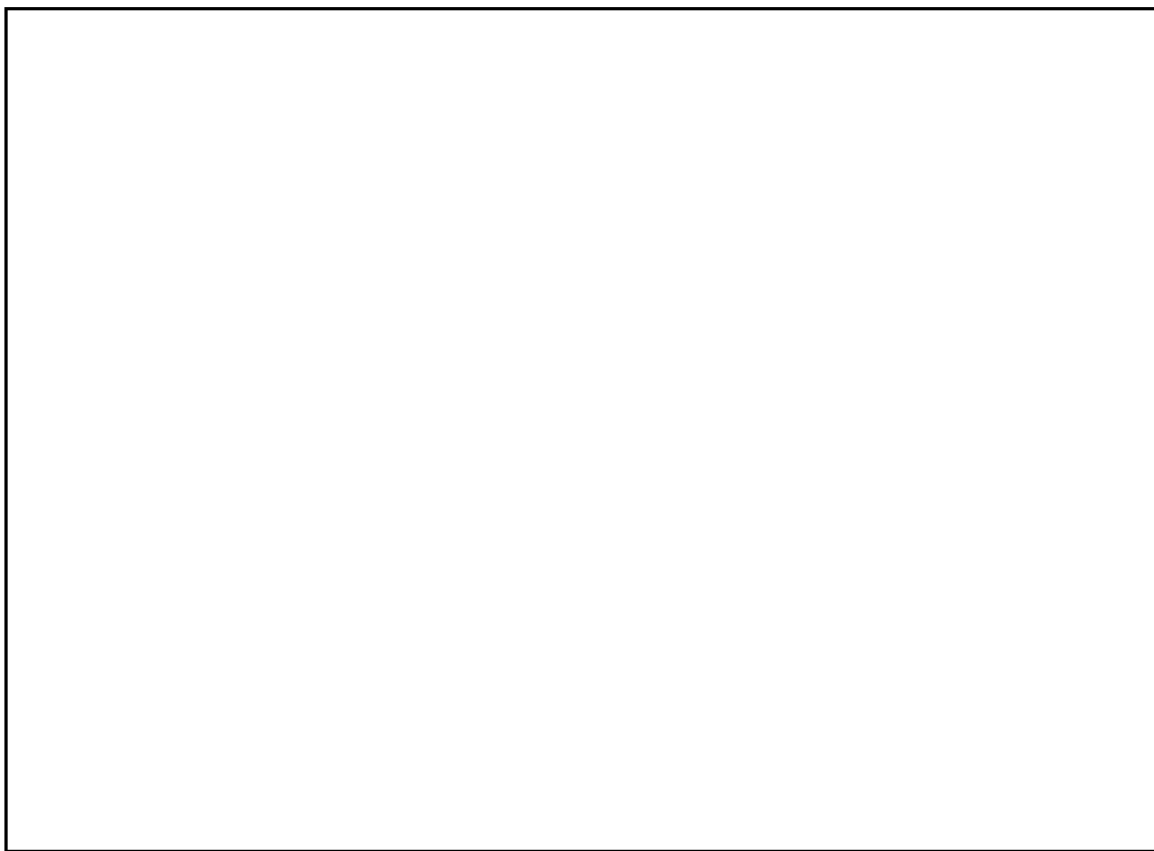
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FOR THE RECORD*

Israel: A British flag tanker, under charter to Israel, arrived at the Mediterranean port of Ashkelon on 10 December with 160,000 metric tons of Iranian crude oil, the first such shipment received since early October. The ship was originally scheduled to go to Elat, but instead was ordered to proceed to Israel via the Mediterranean when it was learned that the ship would lose its insurance coverage if it were used to test the Egyptian blockade of the Red Sea.

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Japan-China: The basic trade agreement initialed on 12 December in Peking is the first pact negotiated by the two countries since normalization of relations late last year. The pace of improving relations has been deliberate; three other commercial agreements envisaged when diplomatic relations were established, and which impinge on Japan-Taiwan contacts, are still some way from conclusion. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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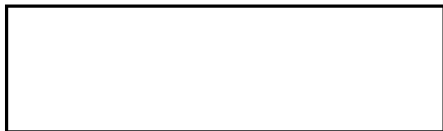
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